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European Review

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**Supplement
8 May 1985**

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EUR ER 85-011C

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West Germany is Iran's principal source of civilian goods, primarily supplying heavy machinery and vehicles. Upset over the large trade deficit it is running with West Germany, Iran is likely to use threats to turn to other suppliers as well as steep oil discounts to entice West German firms to accept barter deals. At the same time, Bonn has permitted virtually no arms sales to Tehran since the war with Iraq began. Iran is using its position as a lucrative export market for German goods to press for sales of military equipment, but Bonn almost certainly will not sanction official sales. Tehran, however, may succeed in some gray market deals with private firms for ammunition, radars, and communications gear.

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as noncoordinated views.

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Articles

Iran: Relations With West Germany

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West Germany is Iran's principal source of civilian goods, primarily supplying heavy machinery and vehicles. Iran is upset over the large trade deficit it is running with West Germany, but it is unlikely to restrict trade. Instead, Tehran is likely to use threats to turn to other suppliers as well as steep oil discounts to entice West German firms to accept barter deals.

Despite West Germany's economic ties with Iran, Bonn has permitted virtually no arms sales to Tehran since the war with Iraq began. Private West German firms, however, have helped Iran complete construction of a rocket factory begun under the Shah. Iran is using its position as a lucrative export market for German goods to press for sales of military equipment, but Bonn almost certainly will not sanction official sales. Tehran, however, may succeed in some gray market deals with private firms for ammunition, radars, and communications gear.

Economic and Political Ties

West Germany has become the principal exporter of civilian goods to Iran since the Islamic revolution in 1979. During 1983 and 1984, Iran imported almost \$5.5 billion worth of goods from West Germany, roughly 15 percent of Iran's imports. Heavy machinery, technology, and civilian vehicles make up the bulk of imports from West Germany.

West German firms have been able to gain a large share of the Iranian market in part because Tehran has terminated virtually all trade with the United States and France. West Germany also has avoided alienating Iran by refusing to sell arms to Iraq. Cultural ties also favor the Germans since several top postrevolutionary Iranian officials—such as the late Chief Justice Beheshti and current Minister of Islamic Guidance Khatami—were educated in West Germany.

West Germany's political ties with Iran are the best of any West European country. West German Foreign Minister Genscher's visit to Iran last year was the most significant by a West European official since the Islamic revolution. In addition to valuing Iran as a lucrative export market, West Germany believes its political and economic ties with Tehran serve larger Western interests. Bonn hopes to reduce Iran's need to turn to Eastern Europe and the Soviet Union for goods and to strengthen moderate forces in Tehran.

Bonn does not condone the excesses of the Khomeini regime, however, and does not want to be closely identified with them. Therefore, we expect no major steps by West Germany to upgrade or intensify political relations any time soon. Iran, on the other hand, views its relationship with West Germany as proof that Tehran is not politically isolated. Iranian moderates argue that it is important to build ties with such countries as West Germany and Japan to preserve Iran's independence from the superpowers.

Arms Trade

Before the Islamic revolution in 1979, Iran maintained a small arms trade with West Germany, primarily in the military services and construction fields. West German military sales to Iran in 1974-79 totaled less than \$300 million. Over 80 percent of West German military trade with Iran was in the form of technical assistance and machinery for arms manufacturing plants. Military equipment sold before 1979 consisted mainly of nonlethal items such as trucks, uniforms, and field radios.

Since the revolution, West German firms have helped Iran finish building a production plant for antitank

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rockets (RPG-7s) begun under the Shah. An artillery and ammunition facility, on which West German firms began construction in 1975, was still not finished in 1982, the last date for which we have information. Firm figures are unavailable, but we believe the rocket production plant is producing tens of thousands of RPGs annually. Both plants are hampered by a lack of raw materials, skilled technicians, and managerial personnel. [REDACTED]

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Since 1979, West Germany has authorized only one arms deal with Tehran—the sale in 1983 of \$20 million in military communications equipment. Private arms dealers, however, have sold Tehran an estimated \$30 million worth of ammunition through gray market transactions. There is little evidence that West German firms have served as middlemen in arranging Iranian arms deals with third countries. [REDACTED]

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West German firms, hurt by the slumping global arms market, have unsuccessfully lobbied Bonn to approve more transfers to Iran as part of an overall relaxation of its arms sales policy. An example is Iran's attempt to purchase six 209-class submarines from a West German firm. The contract for the submarines, which originated under the Shah's regime, was outstanding when Khomeini took power in 1979. The new regime canceled the contract, but in 1982 it began discussions with the firm to try to acquire the submarines. Despite Iranian threats to take legal action, the firm refuses to start construction because Bonn will not consider approving their delivery until the Iran-Iraq war ends. We believe that Bonn would accede to US requests to suspend indefinitely future submarine deliveries. [REDACTED]

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Outlook

Despite Tehran's concern over its trade deficit with Bonn, Iran is likely to continue relying on West German firms for the bulk of its manufactured goods and transport vehicles. Iran will try to reduce the deficit by approaching individual West German firms, by threatening to find other suppliers, and by offering oil barter deals involving price discounts—reportedly as high as 20 percent. [REDACTED]

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Iran also will continue efforts to obtain West German military equipment, probably without much success.

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[REDACTED] West Germany has stated it will not change its opposition to major sales while the war lasts. Iran may have some success in tapping the

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Problems

The major economic issue between the two countries is the large West German trade surplus—in 1983 and 1984 it amounted to almost \$4 billion. [REDACTED]

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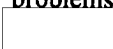
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gray arms market and in finding West German firms willing to sell small arms, but these firms will have problems circumventing West German restrictions.



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